The recommended way to Create Wealth from equity-'Buy Right : Sit Tight'

‘Buy Right' means buying quality companies at a reasonable price and 'Sit Tight' means staying invested in them for a longer time to realise the full growth potential of the stocks.

It is a known fact that good quality companies are in business for decades but views about these companies change every year, every quarter, every month and sometimes every day! While many of you get the first part of identifying good quality stocks, most don’t stay invested for a long enough time. The temptation to book profits at 25% or 50% or even 100% returns in a 1 to 3 year period is so natural that you miss out on the chance of generating substantial wealth that typically happens over the long term; say a 10 year period.

Our Investment Philosophy

At Motilal Oswal Asset Management Company (MOAMC), our investment philosophy and investing style is centered on 'Buy Right: Sit Tight' principal.

Buy Right Stock Characteristics

QGLP

- **'Q'uality** denotes quality of the business and management
- **'G'rowth** denotes growth in earnings and sustained RoE
- **'L'ongevity** denotes longevity of the competitive advantage or economic moat of the business
- **'P'rice** denotes our approach of buying a good business for a fair price rather than buying a fair business for a good price

Sit Tight Approach

- **Buy and Hold:** We are strictly buy and hold investors and believe that picking the right business needs skill and holding onto these businesses to enable our investors to benefit from the entire growth cycle needs even more skill.
- **Focus:** Our portfolios are high conviction portfolios with 20 to 25 stocks being our ideal number. We believe in adequate diversification but over-diversification results in diluting returns for our investors and adding market risk

Buy Right = QGLP Stocks

Over the years MOAMC has conducted various Wealth Creation Studies. These studies and our passion for equity investing has helped us hone a unique and focused investing process that can be summarised in 4 letters - ‘QGLP’.

Where; **'Q'uality** denotes quality of the business and management, **'G'rowth** denotes growth in earnings and sustained RoE, **'L'ongevity** denotes longevity of the competitive advantage or economic moat of the business and **'P'rice** denotes our approach of buying a good business for a fair price rather than buying a fair business for a good price. This approach has helped us to identify many quality stocks in our portfolios.

Characteristics of

Q for QUALITY

G for GROWTH

L for LONGEVITY

P for PRICE

stocks

Quality Business

- Sustained competitive advantage measured by high return ratios
- Industry leadership position
- Favorable industry structure like monopoly or oligopoly
- Secular and stable business, preferably consumer facing
- Limited use of leverage

Quality Management Competence

- Industry leading margins
- Rational capital allocation policy
- Good dividend payout policy
- Innovative
- Integrity
  - Honest and trustworthy
  - Transparent

Growth

- Growing Large addressable market
- Gaining market share
- Understanding various margin growth levers
- Preferably growth within profitable business

Longevity

- Long competitive advantage period
- Understanding growth potential for 10-15 years

Reasonable price

- Discount to historical P/E trading band
- P/B Discount
- Price/earnings to growth (PEG) Ratio
- DCF (Discounted cash flow)
- Replacement Value Discount
- Popular/Unpopular idea
- Payback ratio
- Dividend yield

QGLP stocks perform across good and bad times

Company	2004-08 Bull Market	2008-14 Bear Market	2004-14 Full Cycle
Eicher Motors	11%	2286%	2557%
Page Industries	62%	1445%	2406%
Asian Paints	298%	357%	1717%
HDFC Bank	251%	181%	889%
Nestle India	137%	236%	696%
JP Associates	907%	-64%	258%
S A I L	475%	-61%	121%
GMR Infra.	255%	-71%	4%
DLF	13%	-73%	-69%

Source: Capitaline | Data as on March 31st, 2014

Asian Paints delivered 298% in the bull market and 357% in the bear market

GMR Infra delivered 255% in the bull market and -71% during the bear market

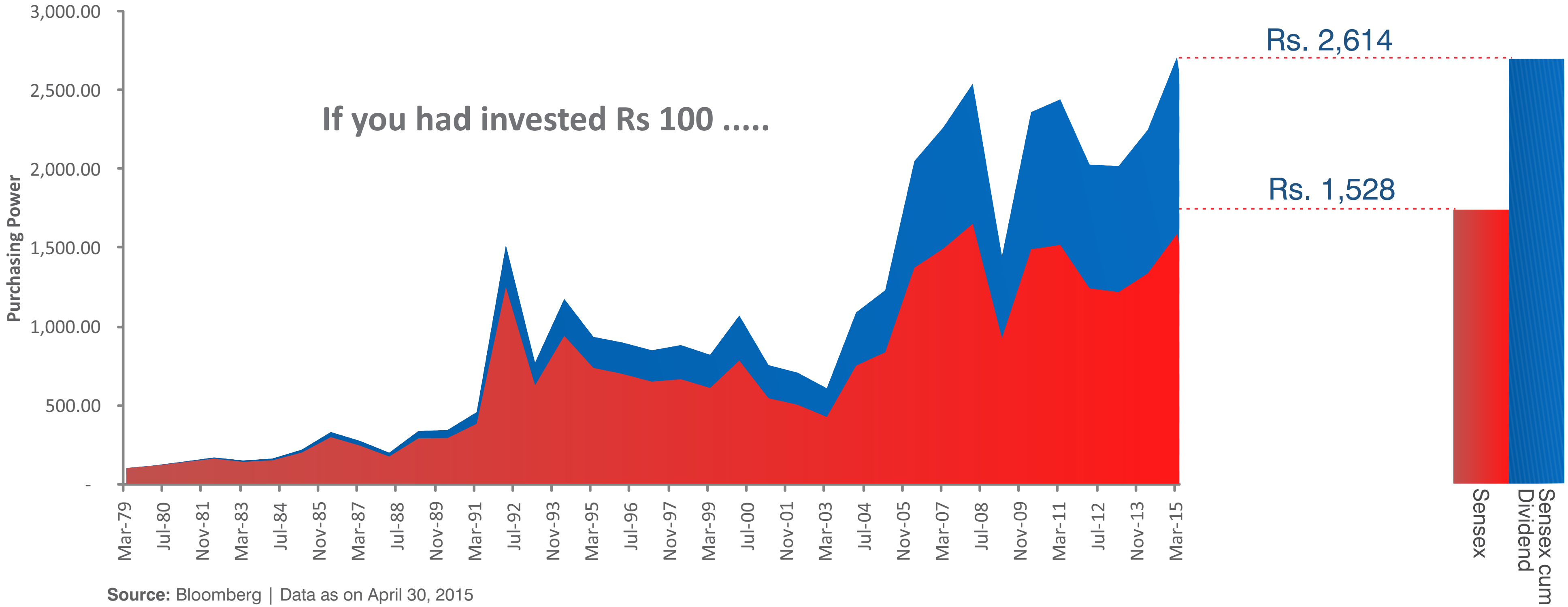
Good quality stocks perform even in bear market

The Stocks mentioned above are used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy. It should not be construed as investment advice to any party. The stocks may or may not be part of our portfolio/strategy/ schemes. Past performance may or may not be sustained in future.

Sit Tight – Buy and Hold

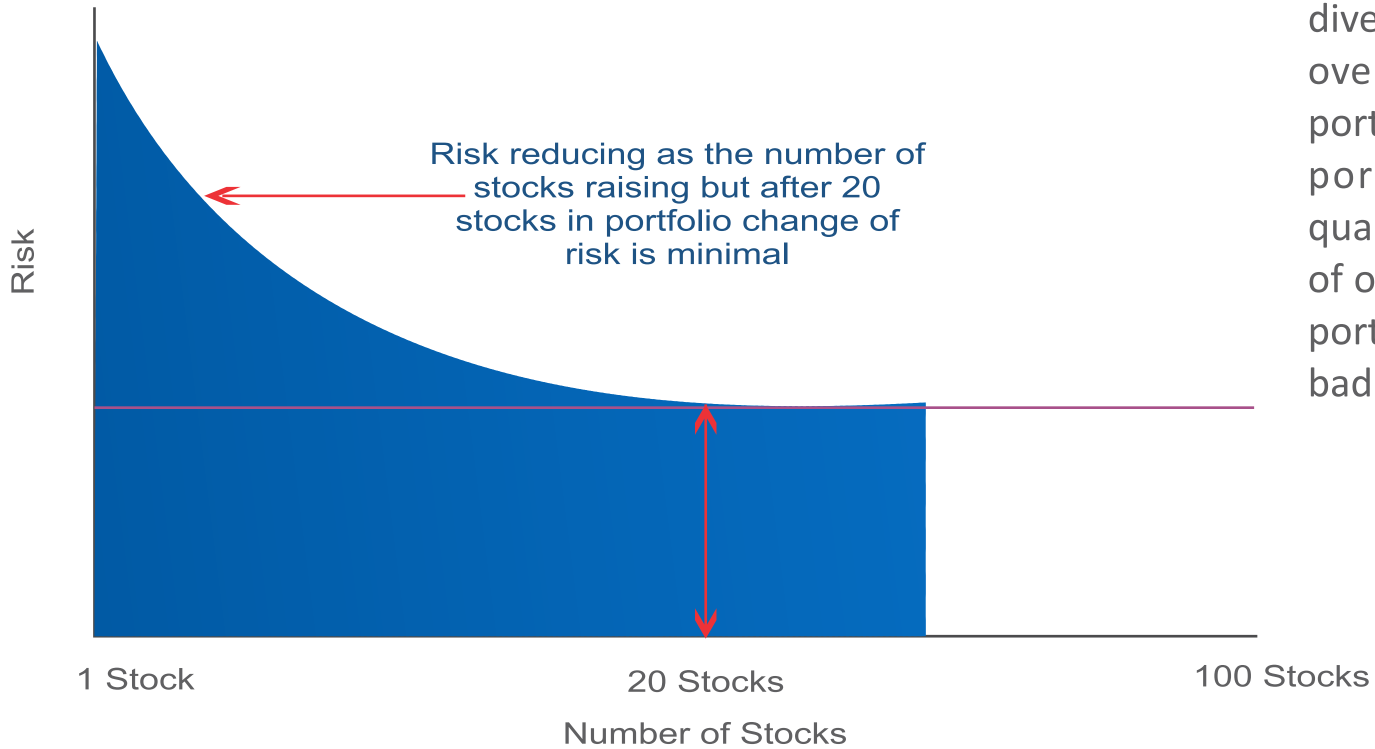
Benefit of Buy and Hold:

If you had invested Rs. 100 in Sensex in 1979, your investment would have multiplied to Rs. 2,681 with dividend and to Rs. 1,569 without dividend. (After adjusting inflation)



Source: Bloomberg | Data as on April 30, 2015

The above graph is used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.



The Power of Focus

Diversification beyond your control becomes unmanageable and adds no value to your portfolio. Over diversification can impact the overall performance of your portfolio. As in case of most portfolios, the top 5 good quality stocks contribute 80% of overall performance of your portfolio while the rest 20% by bad quality stocks.